FINANCIAL SERVICES | EBOOK

OVERCOMING THE CHALLENGES OF DIGITAL TRANSFORMATION IN WEALTH MANAGEMENT

Hyland®

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Introduction

More than any other financial product, wealth management is a high-touch business that relies on personalized service and interaction. Clients expect advice and solutions tailored to their financial goals and individual attitudes towards risk. Managers, meanwhile, spend years building trust through constant contact and collaboration.

Traditionally, this has translated into face-to-face meetings. Managers provide a physical portfolio update, collect relevant documents, and repeat as necessary. In the age of digital and collaborative technology, the need for this paper exchange is eliminated — yet, according to research by PwC, wealth management remains "one of the least tech-literate" sectors of financial services.

There are several reasons for this, chiefly the demographics of the industry itself. Clients who seek wealth management services, namely high net worth individuals (HNWI), tend to be older and less technologically savvy — or so wealth managers believe. But as we will explore later, this is not necessarily true. At least, not for much longer.

THE DIGITAL WAVE IS HERE

With the breakneck speed of innovation in payments and consumer banking, clients across the generational divide now expect the same in wealth management. Technology has also leveled the playing field with lower barriers to entry, enabling digitally native and nimble competitors to take market share.

For traditional wealth management firms, digital technology presents a vast opportunity to realize greater efficiencies, manage costs and transform their role with and value to clients. In this ebook, we highlight why ignoring the digital wave is no longer an option, with insights including:

- Key trends that shape the changing landscape of wealth management
- Challenges faced by organizations when adopting digital technology
- Benefits of digital processes in wealth management

WHO IS CONSIDERED A HIGH NET WORTH INDIVIDUAL?

The financial services industry classifies high net worth individuals (HNWI) as clients with liquid assets above a certain threshold. Although the exact amount differs by financial institution and region, general classifications are as follows:

- **Affluent** — An investor with more than $100,000 but less than $1 million
- **HNWI** — An investor with financial assets greater than $1 million
- **Very HNWI** — An investor with financial assets greater than $5 million
- **Ultra HNWI** — An investor with financial assets greater than $30 million

Part 1:
Shifting landscape

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Wealth management as we know it is obsolete. The days of one-to-one, product-led advisement are now as dated as yesterday's news.

Kendra Thompson
Managing Director, Accenture Wealth & Capital Markets

Although wealth management has been slow to adapt to technological changes, the industry is on the cusp of a digital revolution. Here are some reasons why:

CHANGING DEMOGRAPHICS

Until recently, the majority of HNWIs who seek wealth management services are above 50 years old and less inclined to be digitally savvy — a belief that contributed to the industry's digital complacency. However, research by PwC found that HNWIs across all age groups are comfortable with digital technology in their daily lives:

- **85 percent** of HNWIs use three or more digital devices
- **98 percent** access the internet or apps or both daily
- **69 percent** use online and mobile banking

The same study revealed that HNWIs under 45 years old are more open, confident and enthusiastic about embracing technology, and are more interested in managing investments online. In the coming years, Millennials — some 80 million of them in the U.S. — will come of age financially. As they grow or inherit their wealth in the coming years, they will likely become the wealthiest generation in U.S. history, according to RBC Wealth Management. And by 2025, these career-minded, tech-savvy potential clients will account for almost three-quarters of all income, bringing their digital appetites with them.

CUSTOMER EXPECTATIONS

HNWIs across all markets and age groups now expect online functionality throughout their financial lives, from banking to investments. It is no longer feasible for the wealth management industry to believe its client base does not want or need to manage their assets digitally.

Client expectations that have already driven change in consumer banking are now driving change in wealth management. According to Refinitiv, there are four main customer expectations:

- **Digital and 24/7 delivery** – This drives and affects all financial services, but it's important to note that it doesn't exclude the need for in-person customer service.
- **Compliant and user-friendly service** – Clients expect a seamless service that is compliant not only within their tax-residency jurisdiction, but also as a global investor.
- **Customized and relevant content** – Clients expect a tailored service based on their personal investment objectives and risk profile.
- **Transparent fees and performance data** – Loyalty and relationships are no longer enough to keep customers, who are increasingly less tolerant of hidden fees. Clients also want to be able to monitor their risk/return net of fees.

NEW COMPETITORS

Businesses that continue to ignore these customer demands risk losing market share, especially to non-traditional players and pure digital portfolio management platforms.

Emerging service providers, such as robo-advisor platforms, are gaining traction around the globe, using algorithms to offer financial advice for a fraction of the price of a client advisor. With service models ranging from automated investment to guided advice, robo-advisors are doubling their assets under management (AUM) every few months and are expected to reach $2 trillion by 2020, according to a Bloomberg report.

It's worth noting, however, that adoption rate is still low. Although HNWIs are aware of robo-advice services, research by PwC confirms that only 6 percent of HWNIs use them, suggesting that HNWIs see robo-advice platforms as more of a mass-market service. Still, wealth management firms should keep this in mind for the long-term. Mass-affluent customers — dubbed "high earners, not rich yet" (HENRYs) — that use robo-advice services are unlikely to seek traditional wealth management when their assets reach the qualifying threshold.

Meanwhile, tech giants Google, Apple, Facebook, Amazon, Alibaba and Tencent have all expressed interest in entering the wealth management industry. More than half of HNWIs surveyed in the World Wealth Report 2018 say they would use wealth management services from a BigTech firm, which could translate to $12 trillion of potential asset flows. Although these firms have yet to enter the market due to barriers, including privacy issues and regulatory constraints, it is likely to be a case of "when" rather than "if". In preparing for this future, leading wealth management firms are heavily investing in innovative technologies like intelligent automation and artificial intelligence (AI).

Barriers to adoption

The wealth management industry faces several challenges in adopting digital technology. Among them are:

LACK OF CLIENT DEMAND

Even as expectations are moving toward digital functionalities, slow client uptake is one of the largest factors hindering innovation. In a report by Thomson Reuters and Forbes, 50 percent of wealth managers said their firm's ability to go digital and take advantage of new technologies is hampered by their less tech-savvy clients.

Another study by Mckinsey found that "digital attackers" — such as robo-advisors Betterment, Wealthfront and Future Advisor — remain small players in the industry, despite high expectations. However, clients of these digital attackers report five to 10 times higher levels of satisfaction.

LEGACY SYSTEMS THAT HINDER INNOVATION

Arguably the biggest digital transformation challenge for wealth management is the technology itself. Most service providers are riddled with rigid legacy systems that lack scalability and interoperability, implemented as stop-gap solutions rather than part of a holistic transformation.

These systems house data in disparate systems and obstruct data movement between silos, preventing the 360-degree view of the customer required to provide personalized services to customers anywhere, anytime. In many cases, firms build upon these core systems to support new consumer trends, such as mobile and social media, resulting in a struggle to update their mobile apps, or tie together their smartphone, tablet and online banking experiences.

RISK-AVERSE CULTURE

Most leaders and CEOs understand the urgency and need for innovation, but a risk-averse environment like wealth management may be unwilling to embrace change. Further, most wealth managers still see IT as a function that merely supports their core business rather than a central business strategy.

What's more worrying is that many relationship managers dangerously overestimate their digital offerings, rating their business as "digitally advanced" in a survey by PwC when the only service offered to clients is a website.

Part 2:
Digital wealth management

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We are now entering a new era, a fourth epoch, driven by technological advances. Whereas the previous eras developed efficiencies in an established process, the technologies available or in development today enable us to rethink the process.

Patrick Donaldson
Head of Market Development, Wealth Asia

Digital technology was highlighted as a key accelerator for future change in wealth management in BCG's Global Wealth Report 2017. But even though industry players agree on the importance of technology, most organizations fail to realize any business value from their transformation programs. This is because they pursue digital innovation as a feature selection exercise that centers on what their existing technology can provide. These stop-gap solutions result in digital capabilities that are basic, disconnected and insufficient to meet clients' needs.

What does digital transformation look like for wealth management?

PAPERLESS ONBOARDING

One area in which traditional wealth management firms struggle to keep up is the client onboarding process. The days of clients visiting a physical office to open a new account are numbered — that is, if they aren't over already. To remain relevant and competitive in the digital era, firms need to adhere to a basic rule: quick, inexpensive and easy delivery. And this begins with onboarding.

SEAMLESS CLIENT EXPERIENCE

In a world where anyone can open a micro-investing account from their phone in under five minutes, a seamless client experience is crucial to remain competitive, as a streamlined customer journey is not only more efficient from a business perspective, it is the only way to win new clients and retain existing ones. Client experience has become a top strategic priority for wealth management firms. In fact, consulting firm Walker estimates that by the year 2020, customer experience is expected to overtake price and product as a key differentiator in the market.

EFFICIENT WORKFLOWS

In addition to acquiring and serving clients, wealth and relationship managers typically take on burdensome administrative tasks such as account openings, transactions and payments. Client onboarding that relies on paper-based forms is an inconvenient and unpleasant chore, involving repetitive data entry and extensive paperwork — with much of the data collected aimed at meeting compliance needs.

Unfortunately, this information is often stuck in siloed repositories due to legacy systems that don't talk to each other, which further compounds employees' administrative work. When client data resides across multiple systems, filing cabinets and email inboxes, it can be cumbersome — and near impossible — to track down relevant information. And the sensitive nature of this data means the disparate systems pose a serious risk of non-compliance, especially if processes involve approvals being conducted via email.

Imagine a single platform that integrates client acquisition, digital onboarding, regulatory compliance, relationship management and business intelligence, giving relationship managers a 360-degree view of each client. This not only reduces wealth managers' huge administrative burden, it empowers them to provide customers with faster, more accurate service.

REDUCED COSTS

Manually opening an account involves a massive internal workflow to verify, store and update clients' information over time. Digitizing it significantly reduces the length of the process. One wealth management technology firm said it was able to cut the process from 25 days to one day, reducing operational costs. Digital processes also allow information to be verified automatically, which reduces compliance costs.

Part 3:
Content services for wealth management

A robust content services platform like OnBase, Hyland's enterprise information platform, addresses the problems highlighted in the previous sections, including inefficient workflows, administrative burden and siloed data in disparate systems. OnBase enables an end-to-end digital process by first capturing and storing documents electronically, eliminating the need for paper forms and manual verification. Once stored, employees gain instant access to the information they need, when they need it.

ELIMINATE SECURITY RISKS AND COMPLIANCE ISSUES

The documents captured by a content services platform are automatically classified, which gives you the ability to apply security, access and retention policies to documents, while accurately gathering data. This ensures greater security by allowing:

- **Version control** – Ensures that the right version of a document is processed or produced during eDiscovery
- **Records and retention management** – Automates the process of declaring documents as records, placing holds and performing retention tasks like automatic deletion or archival

Encrypted Disk Groups provides an additional layer of security for content stored in OnBase. Documents are automatically AES 256-bit encrypted, one of the most difficult ciphers to crack, as they are imported, becoming indecipherable when retrieved outside of the system. Even within OnBase, files are accessible only to users with the right permissions, further decreasing risk of exposure.

AUTOMATE PAPER-BASED TASKS

Data recognition and optical character recognition can then extract information from that document image, whether originally in an electronic format or a scanned paper document, reducing the need for manual intervention. A strategic workflow solution can then route documents, document packages and information to the most appropriate employee or approver, greatly reducing process errors for not in good order (NIGO) and in good order (IGO) review.

REDUCE SLA TIMING

The right content services solution reduces, and sometimes eliminates, the need for human interaction during back-office processes. By reducing the need to search for client information in multiple systems, wealth management organizations can eliminate those costs. Users can follow SLAs in real-time, provide feedback to clients on the fly, and review it all via dashboard metrics.

EMPOWER YOUR WEALTH MANAGERS

A content services solution also allows wealth managers and other staff to easily access information from a secure, central location, allowing more time to focus on providing superior service to clients. Serving clients faster helps your organization meet the evolving communication expectations of your customers and prospects.

Wealth managers no longer make people wait while they search through file cabinets and file shares for client information. Now they can build more meaningful relationships with clients and introduce new products and services.

Part 4:
Embracing change

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Thankfully, the role of technology in wealth management is not simply to automate, but to complement and facilitate digital transformation. The future of wealth management isn't automated, impersonal or robotic. It's personalized — based on an understanding of clients' life goals, and combines technology with service to help people achieve their dreams.

Cheryl Nash
President of Investment Services, Fiserv

Changes in the wealth management landscape — including clients' demographics and expectations, as well as the emergence of agile competitors — will continue shaping the industry in the years to come. In five to 10 years, the role of wealth managers as we know it will be significantly different.

Long-term success — and indeed, survival — will depend on how organizations respond to the digital wave. Wealth management firms that have invested in digital technology are already seeing returns in the form of higher client satisfaction, which will translate into loyal customers.

But it would be a mistake to think that technology can replace the value of personalized advice and service, or that customers of the future expect everything to be remote and online. The future of wealth management is more personalized than ever, if organizations can realize the vision of digital innovation being used to complement and enhance their offerings.

INNOVATE NOT FOR TECH'S SAKE

Implementing a content services platform like OnBase is a good first step in realizing this vision — as well as for immediate, measurable gains. Giving employees access to the information they need, when they need it, results in faster and more accurate service, which in turn increases customer satisfaction.

Secure, paperless and automatic routing makes administrative processes like account opening and management more efficient, which drives down operational costs. Additionally, a solution like OnBase integrates into more than 500 unique applications without custom coding, providing more than 30 different options for integration with key financial technologies.

Innovating just for technology's sake will only result in sunk costs. To achieve business value through digital innovation, wealth management organizations can start by applying lessons from early adopters, such as finding more agile ways to work and making client experience a priority.

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